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POLAND-USSR: Jaruzelski's Visit Ends

Premier Jaruzelski returned home yesterday after two days of talks in Moscow. Warsaw's continued delay in covering the interest payments overdue to Western banks from 1981 may bring default nearer.

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Polish and Soviet leaders yesterday concluded their two-day summit with a communique in which the Poles renewed their loyalty to Moscow and to "socialism" and pledged to "cut short resolutely" any future efforts to disrupt Poland's economic and political system.

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The communique mentioned the "vital significance" of dependable deliveries of fuel and raw materials and said that Moscow will continue to support and assist the Poles. Warsaw promised to "make efforts" to ensure balanced Soviet-Polish trade. In addition, the two sides noted that CEMA is ready to help Poland.

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Moscow and Warsaw criticized US interference in Poland's internal affairs, particularly the "sordid attempts" to use the CSCE followup conference in Madrid for this purpose.

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Meanwhile, unidentified Soviet sources have told Western reporters that the USSR agreed during Jaruzelski's visit to provide Poland with more aid than was called for in the protocol of early January. The sources did not indicate how much additional aid would be provided, or in what form.

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Comment: The communique, as well as the visit as a whole, is reminiscent of the pre-Solidarity era. The opaque language, lack of detail, and the conformity of views reveal little about the course of discussion.

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The brief reference to balanced trade in the communique suggests that Moscow will not be generous with its help. Additional aid could take several forms. Moscow might allow the Poles to run a trade deficit in 1982 larger than the 1.2 billion rubles agreed to in January, provide hard currency credits, or accelerate deliveries

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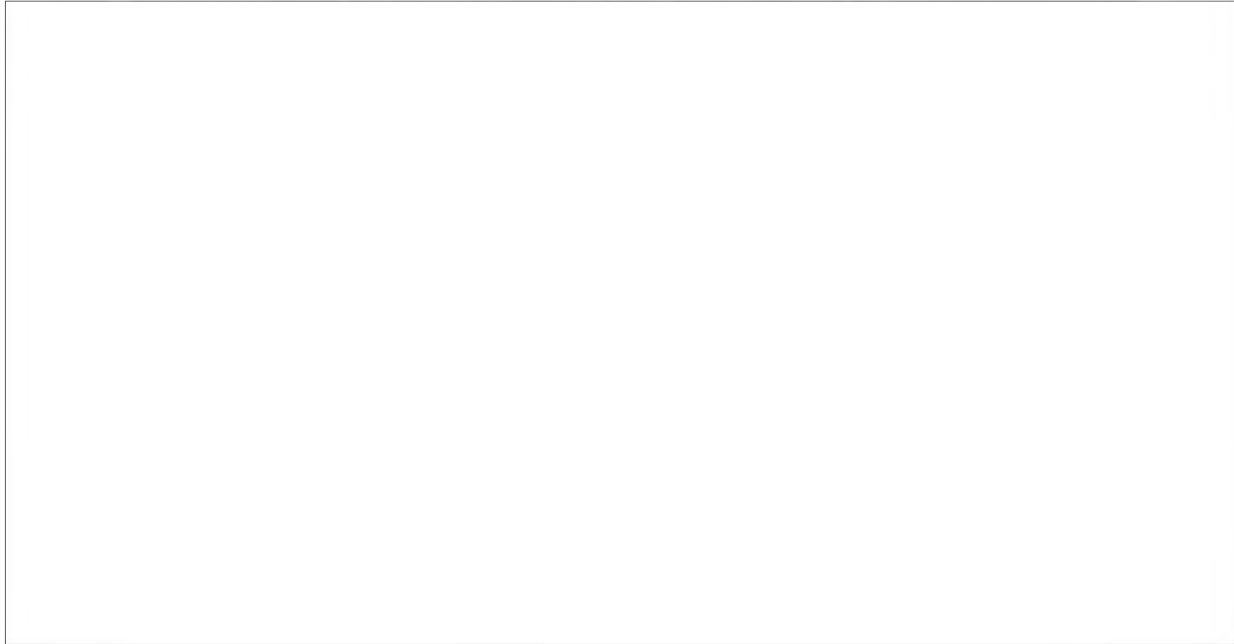
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of Soviet goods. Rather than a single, large commitment, Moscow probably prefers to dole out additional aid piece-meal and to base its decisions on the course of events in Poland in order to maximize its leverage. 

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EL SALVADOR: Increasing Rightist Strength

//The cogoverning Christian Democrats, concerned over growing support for the right, are considering a postelection coalition with the conservative National Conciliation Party. [redacted]

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The IMF reportedly will approve San Salvador's request for economic assistance. [redacted] —

//Christian Democratic officials reportedly believe that the rightist parties are skillfully organizing their campaign with help from the military. Party leaders still expect to win a slim majority, but are concerned that a postelection coalition put together by the right would successfully thwart their programs. [redacted]

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The unsuccessful attempt last week to kill D'Aubuisson underscores his increasing prominence. The attempt came one day after an attack on his party headquarters in San Salvador in which three party officials were seriously wounded. D'Aubuisson's party suspects complicity by the Christian Democrats in the attacks and has hinted at retaliatory action. [redacted]

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Comment: *//The Christian Democrats and moderates in the National Conciliation Party apparently agree on the need to thwart D'Aubuisson. Some officials of the National Conciliation Party reportedly hold him responsible for the murder of their top leader in January.* [redacted]

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Impending IMF Assistance

The IMF reportedly will approve El Salvador's request for a \$40 million aid package for 1982 by late this month. In exchange, San Salvador has agreed to reduce government deficits by slashing nondefense spending by nearly 30 percent in real terms this year. In addition, the government has agreed to limit the decline in its foreign exchange reserves, to continue to liberalize currency controls, and to put ceilings on domestic credit, particularly for the public sector. [REDACTED]

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Comment: The IMF aid will provide part of the approximately \$180 million needed to prevent a decline in imports and GNP this year. To meet the tough terms, however, the government probably will require additional assistance from other donors beyond the roughly \$300 million already promised. The IMF's position is a significant departure from the attitude prevailing last July, when European members of the Executive Board were reluctant to agree to funding in the absence of longrange guarantees of economic and political stability. [REDACTED]

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CHINA: Streamlining the Bureaucracy

The speech by Premier Zhao Ziyang marking the official inauguration yesterday of China's bureaucratic reform program outlined specific reorganization plans and sought to allay fears that the measures are in fact a political purge.

Zhao stated that the State Council's 98 ministries, commissions, and agencies will be pared to 52 and their staffs reduced by one-third. The reform of the provincial and municipal governments, originally scheduled for the second half of 1982, will be delayed until next year. Zhao did not touch on reforms under way within the party and Army bureaucracies.

The Premier acknowledged the difficulty and magnitude of the task, but he also noted that the smoothness with which the preliminary work had proceeded over the past two months attests to China's political stability and unity. He termed the reorganization a "profound revolution" aimed only at administrative structures and not at individuals.

Comment: Despite Zhao's assertions, the reorganization is in part politically motivated. Vice Chairman Deng Xiaoping realizes he will have to remove thousands of politically suspect officials to guarantee his succession arrangements and ensure the continuation of his policies after he leaves office, but the leadership appears less united on this cause than on the need for administrative streamlining.

Details of the bureaucratic reforms had been closely guarded, while leaders negotiated behind the scenes who would go first and when, and Zhao's speech indicates that these decisions have been made. Deng and his allies will want to maintain momentum, however, while retaining the appearance of leadership stability and unity. Threatened bureaucrats will seize on any hint of flagging determination to undermine the program.

China probably will realize little if any immediate economic saving from the reorganization. Lucrative retirement benefits--including full salary--in effect will purchase the compliance of senior officials who exceed the new age limits. Many younger surplus officials will be assigned to courses for professional training and political indoctrination, with no loss of income.

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SOMALIA: Cabinet Changes

President Siad's cabinet changes on Monday are intended to confuse potential political opponents during his impending absence from the country and to create the impression of progress in dealing with economic and military problems. [REDACTED]

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Acting Defense Minister Omar Haji--who visited Washington seeking military aid in January--has been demoted to Minister of Health. He is being replaced by Vice President Samantar, who served as Defense Minister in a previous cabinet. Samantar is close to Siad and retains support in the Army. [REDACTED]

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//The demotion of Omar Haji suggests that Siad knew of his intention to use his position to build a power base. Samantar will now be in a position to undo Omar Haji's efforts.// [REDACTED]

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Comment: //The President probably also was disappointed by Omar Haji's failure to obtain more military aid from the US. Siad's appointment of Samantar, who has been less vocally pro-Western than Omar Haji, may be a signal to Washington that Siad does not want Somalia taken for granted. The President also may believe that he will now win personal credit for any increased US assistance, which he is likely to seek next week during his visit to Washington.// [REDACTED]

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//The limited scope of the changes reflects Siad's increasing rigidity in dealing with his political and economic problems. Siad hopes that increased US assistance will strengthen his domestic position, but aid programs under consideration in the West will have little effect unless accompanied by fundamental reforms.// [REDACTED]

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SPAIN: Socialist Leadership Conflict

//Dissension within the Socialist Party leadership over the party's middle-of-the-road strategy could endanger its position as frontrunner for the next election, which may occur as early as this fall.//

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//Alfonso Guerra, the Socialists' second in command, is challenging assurances by Secretary General Felipe Gonzalez that the party will not undertake nationalizations if it wins the next election. Opinion polls show the Socialists ahead of the governing Democratic Center Union. Gonzalez believes he would need the acquiescence of business leaders to govern, however, and has been campaigning hard to win their trust.//

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Comment: //The quarrel within the leadership reflects a longstanding division between Gonzalez and the more leftist rank and file. Guerra's challenge, however, is probably less a show of strength than an attempt to arrest the decline of the left.//

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//Guerra fears that a continued strong showing in opinion polls will further strengthen Gonzalez's moderate inner circle, which would be the heart of a new cabinet. He is convinced that the Socialists cannot afford to discourage leftists in the party organization from working for victory at the polls.//

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//The deputy secretary general appears to be trying to influence the Socialists' eventual campaign and possible government by pulling Gonzalez back to the left. For the moment, however, he probably has cost the party votes in the crucial center of the electorate, particularly in the business community, and he may have increased the misgivings of military and civilian rightists about the party's ability to govern.//

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USSR-CUBA: Trade Prospects

Soviet Deputy Foreign Trade Minister Komarov, who signed the trade protocol for 1982 in Havana last month, subsequently has suggested that trade will increase in value by 25 percent over last year. An accord on credits also was signed. Available data indicate that Soviet trade with Cuba increased less than 10 percent during the last two years. [REDACTED]

Comment: The Soviets probably are willing to support such an increase, despite growing economic problems at home, in order to reassure President Castro of Moscow's commitment in the face of mounting US pressures against Cuba. [REDACTED]

USSR - EAST ASIA: Soviet Peace Proposals

President Brezhnev has broadened Soviet arms control propaganda to include East Asia and the Pacific. The Soviet leader, in a wide-ranging letter responding to an appeal by an Australian group to curtail the arms race, recently proposed that the US and USSR limit military activities in the Pacific. In replying to a similar appeal from Japanese intellectuals, Brezhnev on Monday proposed a formal bilateral agreement that Moscow would not use nuclear arms against Japan in return for a prohibition by the Japanese against nuclear warheads on their territory. [REDACTED]

Comment: The suggestion for curbing military activities in the Pacific, which parallels the Soviet proposal for the Indian Ocean, underscores Moscow's interest in encouraging public support for regional security talks in the western Pacific, particularly in Japan. Brezhnev's proposal will embarrass Prime Minister Suzuki. Even though Suzuki will reject it in order not to put a further strain on Japan's security relationship with the US, he will find it difficult to present a rationale that will be persuasive for the many Japanese opposed to nuclear weapons. Suzuki is open to criticism by the opposition parties because he has already gone on record that the government will under no circumstances permit nuclear weapons to transit or be based in Japan. [REDACTED]

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KAMPUCHEA: Reduced International Food Aid

Western donors have decided to provide only \$7 million for some 15,000 metric tons of rice to keep open the UN-sponsored emergency relief pipeline via Phnom Penh. Donors have already agreed to continue a separate aid program for Kampucheans living along the Thai border. If a critical food shortage develops in the interior of Kampuchea, however, the Western donors will increase assistance through Phnom Penh somewhat--provided the Heng Samrin regime permits improved international monitoring of Western aid distribution and the Soviet Bloc donates the bulk of any additional food requirements.

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Comment: Neither condition is likely to be met. Aid commitments so far by all donors will not meet most of the large anticipated food shortfall this year in Kampuchea. Various sources--using Phnom Penh's data--estimate that this deficit will range from 280,000 to 315,000 tons. Any large shortage probably will lead to another mass movement to the Thai border by Kampucheans in search of food.

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CHINA: Fertilizer Shortage

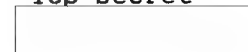
Beijing has issued price and distribution regulations to make better use of dwindling supplies of chemical fertilizer. The government especially wants to stop cooperative employees from selling fertilizer at inflated prices for personal profit or trading it for scarce consumer goods. Last year, potash output dropped by 45 percent, and imports of fertilizer declined slightly because of a shortage of foreign exchange. 

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Comment: Fertilizer remains a critical commodity because increased food production will require adequate supplies. China has asked a US firm to help open new potash mines and is considering outside assistance to increase its output of nitrogen fertilizer. 

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SPECIAL ANALYSIS

FRANCE - MIDDLE EAST: Mitterrand's Visit to Israel

//President Mitterrand's three-day visit to Israel, the first by a French head of state, probably augurs better bilateral relations. The improvement is not likely to be as great, however, as Jerusalem may have hoped--or some Arab leaders feared--immediately following Mitterrand's election. The French leader continues to regard himself as a potential mediator in the Middle East peace process, but he is disinclined for now to launch a French plan for a comprehensive settlement.//

//The decision to seek improved relations with Israel, which have been strained since de Gaulle stopped arms deliveries in 1967, reflects Mitterrand's commitment to its security. This commitment stems in part from his previous ties with prominent Israelis, especially in the Labor Party, and from his many visits to Israel before becoming President.//

//Mitterrand also believes that increased French influence in Israel eventually will enhance his credibility with Arab leaders as a possible peace broker. To a lesser extent, he wants to distinguish his policy from that of former President Giscard and to consolidate his considerable support among Jewish voters at home.//

//The French have shown interest in expanding commercial ties with Israel, although any major agreement probably will not be signed until the French-Israeli joint economic commission meets this month for the first time in 10 years. Increased cultural and scientific exchanges may be announced during Mitterrand's stay.//

//In addition, Israeli officials may attempt to determine French willingness to sell nuclear power reactors to Israel. The French probably would agree to preliminary talks on the subject.//

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Contentious Issues

//Mitterrand will point to his public support for the Camp David accords and for French participation in the Sinai peacekeeping force as evidence of his support for practical steps toward peace. At the same time, he will suggest that the Camp David process cannot resolve the Palestinian issue and that a supplementary approach is needed. Mitterrand believes that to preserve its independence and security, Israel eventually will have to accept the establishment of an independent Palestinian state.//

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//The President may cite the proposals outlined last year by Saudi Prince Fahd as constructive. He will take care, however, to disassociate France from some aspects of those proposals, such as making Jerusalem the capital of a Palestinian state.//

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//Mitterrand doubts that Prime Minister Begin can be persuaded to alter his approach to the peace process. French officials apparently fear that Begin soon may take some provocative action, possibly an attack on southern Lebanon. They probably believe that France's counsel will be received more favorably by elements of the Labor Party.//

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//The French leader will attempt to assuage Begin's concerns over French nuclear cooperation with Iraq. He probably will argue that renewed cooperation would be tied to Baghdad's acceptance of strict safeguards, preventing the diversion of French equipment and technology for military purposes.//

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Mending Fences With Arab Leaders

//Syrian President Assad and PLO officials already have criticized Mitterrand's visit, with the PLO now asking Mitterrand to invite Yasir Arafat to Paris--a request Mitterrand is likely to refuse. The trip also may undermine Renault's efforts to end the Arab boycott against it.//

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//French officials appear confident, nevertheless, that relations with leading Arab partners will not be seriously affected. Paris recently has attempted to reassure Arab leaders that France will not soften its position supporting the Palestinians or change its policy of seeking closer ties with the Arab states. Mitterrand is likely to reiterate such assurances during subsequent visits to Jordan and Iraq.// [redacted]

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Outlook

//Despite its reservations, Paris probably will increase behind-the-scenes efforts to develop a unified Arab endorsement of the Fahd proposals after the Israeli withdrawal from the Sinai. The French also may seek to promote a reconciliation between Egypt and other Arab states, especially Saudi Arabia. French officials apparently believe that renewed Egyptian leadership in the Arab world would help bring other Arab states closer to peace with Israel.// [redacted]

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//The French also will continue to encourage Israel to be more forthcoming on the Palestinian issue. France's insistence on this, combined with its efforts to broaden considerable ties with the Arab states, will limit the improvement of relations with Israel.// [redacted]

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//Mitterrand may eventually offer suggestions of his own on the peace process--probably after consultations with France's EC partners--if he sees a consensus developing among key interested parties. He probably will take pains, however, to ensure that France is viewed as supporting initiatives from within the region rather than proposing a formula from outside.// [redacted]

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//Paris is unlikely to make any such move until it has a clearer picture of US policy toward the region. French officials apparently believe that only Washington can hope to obtain significant concessions from the Israelis but that US officials have yet to focus on the Palestinian issue. Paris probably will remain skeptical that a strategic consensus on resisting possible Soviet threats to the region can be achieved until the Palestinian issue is resolved.// [redacted]

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